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Financial Regulations and Rules of the International Tribunal for the Law of the Sea

Prepared by the Tribunal

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Introduction

1. The draft Financial Rules of the Tribunal (SPLOS/2004/WP.2) were submitted to the fourteenth Meeting of States Parties pursuant to regulation 10.1(a) of the Financial Regulations of the Tribunal. The Meeting took note of the Financial Rules presented by the Registrar on 15 June 2004.

2. In accordance with rule 114.1, the Financial Rules of the Tribunal became effective on 1 January 2005.

3. A consolidated version of the Financial Regulations and Rules of the Tribunal is reproduced below.

REGULATION 1
Applicability

1.1 These Regulations shall govern the financial administration of the International Tribunal for the Law of the Sea.

1.2 For the purposes of these Regulations:

(a) "Committee on Budget and Finance" means the Committee established as such by the Tribunal;

(b) "Convention" means the United Nations Convention on the Law of the Sea of 10 December 1982 together with the Agreement of 28 July 1994 relating to the implementation of Part XI of the United Nations Convention on the Law of the Sea;

(c) "Meeting of States Parties" means the Meeting of States Parties to the Convention;

(d) "International Organizations" means international organizations, as defined in article 1 of Annex IX to the Convention, which are Parties to the Convention. "States Parties" in these Regulations does not include International Organizations;

(e) "Registrar" means the Registrar of the Tribunal;

(f) "Financial Rules" means the Financial Rules of the Tribunal;

(g) "Statute" means the Statute of the Tribunal, Annex VI to the Convention;

(h) "Working Group" means the open-ended working group established in accordance with rule 53 bis of the Rules of Procedure for Meetings of States Parties.

APPLICABILITY, AUTHORITY AND RESPONSIBILITY

Rule 101.1
Applicability and authority

The Financial Rules are promulgated by the Registrar in accordance with the provisions of the Financial Regulations approved by the Meeting of States Parties. They shall govern all the financial management activities of the Tribunal except as may otherwise explicitly be provided by the Meeting of States Parties or unless specifically exempted therefrom by the Registrar. The Registrar may delegate by administrative instruction authority for specified aspects of the Financial Regulations and Rules. These administrative instructions will state whether the delegated official may assign aspects of this authority to other officials. In the application of the Financial

Regulations and Rules, officials shall be guided by the principles of effective financial management and the exercise of economy.

Rule 101.2
Responsibility

All members of the staff of the Tribunal shall comply with the Financial Regulations and Rules and with administrative instructions issued in connection with those Regulations and Rules. Any staff member who contravenes the Financial Regulations and Rules or corresponding administrative instructions is liable for the consequences of such contravention.

REGULATION 2
Financial period

2. The financial period shall consist of two consecutive calendar years, beginning with the year 2005. Until then the financial period shall consist of one calendar year.

REGULATION 3
The budget

3.1 The draft budget for each financial period shall be prepared by the Registrar.

Rule 103.1
Preparation of draft budget

(a) The Registrar shall decide on the content and resource allocation of the proposed draft budget to be submitted to the Committee on Budget and Finance;

(b) Heads of organizational units shall prepare budget proposals for the forthcoming financial period at such times and in such detail as the Registrar may prescribe and in accordance with the Financial Regulations and Rules of the Tribunal.

3.2 The draft budget shall cover income and expenditures for the financial period to which they relate and shall be presented in euros.

3.3 The draft budget shall be divided into parts, sections and, as appropriate, programme support. It shall be accompanied by such information, annexes and explanatory statements as may be requested by or on behalf of the Meeting of States Parties, including a statement on the main changes in comparison with the budget of the previous financial period, and such further annexes or statements as the Registrar may deem necessary and useful.

Rule 103.2
Content of draft budget

The draft budget shall contain:

(a) a detailed statement of resources to be allocated by parts, sections and as appropriate programme support; for purposes of comparison, the expenditures for the previous financial period and the revised appropriations for the current financial period shall be indicated alongside the resource estimates for the forthcoming financial period;

(b) a statement of estimated income, including income classified as miscellaneous in accordance with regulation 7.1; information on revenue-producing activities shall show estimated gross revenue and

expenditure for each activity as well as the credit to the income section of the budget in respect of the net revenue from each activity.

3.4 The Committee on Budget and Finance shall transmit to the Tribunal the draft budget proposed by the Registrar for the following financial period with its comments and recommendations. The Tribunal shall consider and approve the draft budget for the following financial period and shall transmit it to the Secretariat of the United Nations in sufficient time to ensure its availability to all States Parties and International Organizations at least 40 days prior to the opening of the Meeting of States Parties for its final approval.

3.5 States Parties and International Organizations may request the Registrar to provide clarifications on the proposed budget. Such clarifications shall be provided by the Registrar at the meeting of the Working Group.

Rule 103.3
Publication of the adopted budget

The Registrar shall arrange for the publication of the budget as adopted by the Meeting of States Parties.

3.6 Supplementary budget proposals may be prepared by the Registrar if exceptional circumstances make this necessary. They shall be prepared in a form consistent with the approved budget. The provisions of these Regulations shall apply mutatis mutandis to the proposed supplementary budget.

Rule 103.4
Revised and supplementary budget requirements

Revised and supplementary budget proposals may be submitted in the following instances:

(a) when, in the interest of the administration of justice, urgent approval is required;

(b) when they include activities which the Registrar considers to be of the highest urgency and which could not have been foreseen at the time the initial budget proposals were prepared;

(c) in respect of decisions taken by the Meeting of States Parties;

(d) when they cover activities mentioned in earlier budget proposals as items for which later submissions would be made;

(e) when they involve changes in expenditure requirements associated with inflation and currency fluctuations.

Rule 103.5
Preparation of revised and supplementary budgets

(a) Heads of organizational units shall prepare revised and supplementary budget proposals in such detail and at such times as the Registrar may prescribe.

(b) The Registrar, with the approval of the Tribunal or the President if the Tribunal is not in session, shall decide on the content and resource allocation of all revised and supplementary budget proposals to be submitted to the Meeting of States Parties.

3.7 The Registrar may enter into commitments for future financial periods, provided that such commitments:

(a) are for activities which have been approved by the Meeting of States Parties and are expected to continue beyond the end of the current financial period; or

(b) are authorized by specific decisions of the Tribunal acting with the prior approval of the Meeting of States Parties.

Rule 103.6
Maintenance of record of commitments for future financial periods

The Registrar shall maintain a record in the accounts of all commitments for future financial periods (rule 111.7) which shall constitute the first charges against relevant appropriations once these are approved by the Meeting of States Parties.

REGULATION 4
Appropriations

4.1 The appropriations adopted by the Meeting of States Parties shall constitute an authorization for the Registrar to incur obligations and make payments for the purposes for which the appropriations were adopted and up to the amounts adopted.

4.2 Appropriations shall be available for obligation during the financial period to which they relate.

4.3 Appropriations shall remain available for twelve months following the end of the financial period to which they relate to the extent that they are required to liquidate any outstanding legal obligations of the financial period. The balance of the appropriations remaining unobligated at the close of the financial period, after deducting therefrom any contributions from States Parties, International Organizations and the International Seabed Authority relating to that financial year which remain unpaid, shall form part of any cash surplus of the budget and shall be treated in accordance with regulation 4.5.

4.4 At the end of the twelve-month period provided for in regulation 4.3, the then remaining unspent balance of appropriations retained after deducting therefrom any contributions from States Parties, International Organizations and the International Seabed Authority relating to the financial period of the appropriations which remain unpaid shall be treated as a cash surplus as in regulation 4.3. Any obligations remaining a valid claim at that time shall be charged against current appropriations.

The provisional cash surplus for the financial period shall be determined by establishing the balance between credits (assessed contributions actually received for the financial period and miscellaneous income received during the financial period) and charges (all disbursements against the appropriations for that financial period and provisions for unliquidated obligations for that financial period).

The cash surplus for the financial period shall be determined by crediting to the provisional cash surplus any arrears of prior periods' contributions received during this period and any savings from the provisions made for unliquidated obligations as mentioned above. Any remaining outstanding obligations shall be re-obligated against the appropriations of the current financial period.

4.5 Any cash surplus in the budget at the close of any financial period shall be apportioned among States Parties, International Organizations and the International Seabed Authority in proportion to the contributions determined for the financial period to which the surplus relates. As of 1 January of the year in which the audit of the accounts of the financial period is completed, the amount so apportioned to a State Party, an International Organization or the International Seabed Authority shall be surrendered if its contribution for that financial period has been paid in full and shall be applied to liquidate, in whole or in part, first, any advance due to the Working Capital Fund; secondly, any arrears of contributions; and thirdly, contributions for the calendar year following the year in which the audit is completed.

While any cash surplus in the budget shall be apportioned among all States Parties, International Organizations and the International Seabed Authority, the amount so apportioned shall be surrendered only

to those which have paid in full their contributions for that financial period. Amounts apportioned but not surrendered shall be retained by the Registrar until such time as the contribution for the relevant financial period is paid in full, at which time they shall be applied as set forth above.

4.6 No transfer between appropriation sections may be made without authorization by the Meeting of States Parties, unless such a transfer is made necessary by exceptional circumstances and is in accordance with criteria agreed upon by the Meeting of States Parties.

4.7 The Registrar shall prudently manage the appropriations. The Registrar shall be accountable to the Meeting of States Parties for the proper management of the financial resources in accordance with these Regulations and the Financial Rules.

Rule 104.1
Authorization to expend appropriations

Authorization by the Registrar to expend budget appropriations may take the form of:

(a) an allotment of funds or other authorization to commit funds for a specific period and/or a specific purpose; and/or

(b) an authorization for the employment of staff or of consultants.

Rule 104.2
Allotment advice

The Registrar shall issue at least annually a detailed allotment advice to each organizational unit of the Tribunal for the objects of expenditure for which it is responsible.

Rule 104.3
Redeployment between organizational units

The Registrar may redeploy resources among organizational units and objects of expenditure, provided such redeployments are within the total appropriations approved by the Meeting of States Parties for an appropriation section.

REGULATION 5
Provision of funds

5.1 The funds of the Tribunal shall include:

(a) assessed contributions made by States Parties in accordance with article 19, paragraph 1, of the Statute;

(b) agreed contributions, as determined by the Meeting of States Parties, made by International Organizations;

(c) contributions by the International Seabed Authority in accordance with article 19, paragraph 1, of the Statute;

(d) contributions by other entities in accordance with article 19, paragraph 2, of the Statute;

(e) voluntary contributions made by States Parties, other States, International Organizations, the International Seabed Authority or other entities;

(f) such other funds to which the Tribunal may become entitled or may receive.

5.2 The appropriations, subject to the adjustments effected in accordance with the provisions of regulation 5.3, shall be financed by:

(a) assessed contributions from the States Parties in accordance with an agreed scale of assessment based upon the scale used for the regular budget of the United Nations in the preceding calendar year adjusted to take into account the differences in membership between the United Nations and the States Parties to the Convention, as well as a floor rate and a ceiling rate as determined from time to time by the Meeting of States Parties;

(b) agreed contributions from International Organizations, as determined from time to time by the Meeting of States Parties, taking into consideration the total amount of the budget for each financial period;

(c) contributions from the International Seabed Authority.

Pending the receipt of such contributions, the appropriations may be financed by the Working Capital Fund.

5.3 For each of the two years of a financial period, the contributions of States Parties, International Organizations and the International Seabed Authority shall be determined on the basis of half of the appropriations adopted by the Meeting of States Parties for that financial period, except that adjustments shall be made in respect of:

(a) supplementary appropriations for which contributions have not previously been determined;

(b) contributions under the provisions of regulations 5.9 and 5.10;

(c) any balance of the appropriations surrendered under regulations 4.3, 4.4 and 4.5.

5.4 After the Meeting of States Parties has adopted the budget and determined the amount of the Working Capital Fund, the Registrar shall:

(a) transmit the relevant documents to the States Parties, International Organizations and the International Seabed Authority;

(b) inform the States Parties, International Organizations and the International Seabed Authority of their commitments in respect of annual contributions and advances to the Working Capital Fund;

(c) request them to remit their contributions and advances.

Rule 105.1
Time frame for application of regulation 5.4

The Registrar shall comply with regulation 5.4 within thirty days of the decision by the Meeting of States Parties approving the budget and the level of the Working Capital Fund.

5.5 Contributions and advances shall be considered as due and payable in full within thirty days of the receipt of the communication of the Registrar referred to in regulation 5.4, or as of the first day of the calendar year to which they relate, whichever is the later. As of 1 January of the following calendar year, the unpaid balance of such contributions and advances shall be considered to be one year in arrears.

5.6 Annual contributions and advances to the Working Capital Fund shall be determined in euros and paid in either United States dollars or euros.

Rule 105.2
Exchange rate of assessed contributions paid in US$

The equivalent in euros of contributions paid in US$ is calculated at the most favourable rate of exchange (normally the market buying rate) available to the Tribunal on the date of payment.

5.7 Payments made by a State Party, an International Organization or the International Seabed Authority shall be credited first to the Working Capital Fund and then to the contributions due, in the order in which the contribution was determined.

5.8 The Registrar shall submit to each Meeting of States Parties a report on the collection of contributions and advances to the Working Capital Fund.

5.9 New States Parties shall be required to make contributions for the year in which they become States Parties and to provide their proportion of the total advances to the Working Capital Fund at rates to be determined by the Meeting of States Parties.

5.10 New International Organizations shall be required to make agreed contributions for the year in which they become Parties to the Convention and to provide their proportion of the total advances to the Working Capital Fund at rates to be determined by the Meeting of States Parties.

5.11 Contributions of entities other than a State Party, an International Organization or the International Seabed Authority to the expenses of the Tribunal shall be treated as miscellaneous income.

REGULATION 6
Funds

6.1 There shall be established a General Fund for the purpose of accounting for the administrative expenditures of the Tribunal. The contributions referred to in regulation 5.2 by States Parties, International Organizations and the International Seabed Authority, miscellaneous income and any advances made from the Working Capital Fund to finance administrative expenditures shall be credited to the General Fund.

6.2 There shall be established a Working Capital Fund to ensure financial resources for the Tribunal to meet short-term liquidity problems pending receipt of contributions under regulation 5.2 and to provide the Tribunal with the financial means to deal with cases, in particular those requiring urgent proceedings, to the extent that the expenditure cannot be met from the case-related costs. The amount shall be determined from time to time by the Meeting of States Parties. The Working Capital Fund shall be constituted by advances from States Parties, International Organizations and the International Seabed Authority. Advances shall be made in accordance with the agreed scale of assessment or, in the case of International Organizations and the International Seabed Authority, as determined from time to time by the Meeting of States Parties. Advances shall be carried to the credit of States Parties, International Organizations and the International Seabed Authority which have made such advances.

6.3 Advances made from the Working Capital Fund to finance budgetary appropriations shall be reimbursed to the Fund as soon as and to the extent that income is available for that purpose.

Rule 106.1
Advances from the Working Capital Fund

(a) Advances from the Working Capital Fund may be made only for the purposes and within the terms and conditions prescribed by the Meeting of States Parties and only with the approval of the Registrar.

(b) Except when such advances are recoverable from some other source, advances from the Working Capital Fund for unforeseen and extraordinary expenses or other authorized purposes shall be reimbursed though the submission of supplementary programme budget proposals.

6.4 Income derived from investments of the Working Capital Fund in accordance with regulation 9.1 shall be credited to miscellaneous income.

6.5 Reserve and special accounts may be established by the Registrar, with the approval of the Tribunal, in accordance with these Regulations and shall be reported to the Meeting of States Parties. Trust funds may also be established by the Registrar, with the approval of the Tribunal, in accordance with these Regulations and shall be brought to the Meeting of States Parties for its consideration.

6.6 The purpose and limits of each trust fund, reserve and special account shall be clearly defined by the authority approving it pursuant to regulation 6.5. Unless otherwise decided by the Meeting of States Parties, such funds and accounts shall be administered in accordance with these Regulations.

REGULATION 7
Other income

7.1 All other income except:

(a) contributions to the budget by States Parties, International Organizations and the International Seabed Authority in accordance with regulation 5.2;

(b) voluntary contributions pursuant to regulation 7.2;

(c) direct refunds of expenditures made during the financial period;

(d) revenue derived from staff assessment, shall be classed as miscellaneous income, for credit to the General Fund.

Rule 107.1
New States Parties and other entities

Contributions from new States Parties and International Organizations for the year in which they become parties to the Convention, and contributions from other entities, shall be credited as miscellaneous income. Contributions from new States Parties shall be determined on a quarterly basis.

7.2 Voluntary contributions, gifts and donations, whether or not in cash, may be accepted by the Tribunal, provided that the purposes for which the contributions are made are consistent with the nature and functions of the Tribunal. Acceptance of any such contributions, gifts and donations which directly or indirectly involve additional financial liability for the Tribunal shall require the prior consent of the Meeting of States Parties. Information on voluntary contributions, gifts and donations accepted under this regulation shall be communicated to the next Meeting of States Parties.

7.3 Moneys accepted in accordance with regulation 7.2 for purposes specified by the donors shall be treated as trust funds or special accounts in accordance with regulation 6.5.

7.4 Moneys in respect of which no purpose is specified shall be treated as miscellaneous income and reported as "gifts" in the accounts of the financial period.

Rule 107.2
Reimbursements of expenditures

(a) Within the same financial period, reimbursements of actual expenditures incurred may be credited to the accounts against which they were originally charged; reimbursements of actual expenditures incurred in prior financial periods shall be credited as miscellaneous income.

(b) Adjustments that arise subsequent to the closing of an extra budgetary account (i.e., a trust fund, special account, project, etc.) shall be debited or credited against miscellaneous income in the same account.

Rule 107.3
Proceeds from revenue-producing activities

Proceeds from revenue-producing activities shall be credited as miscellaneous income.

Rule 107.4
Receipt and deposit

(a) An official receipt shall be issued as soon as practicable for all cash and negotiable instruments received.

(b) Only officials designated by the Registrar shall be authorized to issue official receipts. If other officials receive money intended for the Tribunal, they must immediately convey this money to an official authorized to issue an official receipt.

(c) All moneys received shall be deposited in an official bank account as soon as practicable.

REGULATION 8
Custody of funds

8. The Registrar shall designate a reputable bank or banks in which the funds of the Tribunal shall be kept.

Rule 108.1
Bank accounts, authority and policy

The Registrar shall establish all official bank accounts required for the transaction of the Tribunal's business and shall designate those officials to whom signatory authority is delegated for the operation of those accounts. The Registrar shall also authorize all bank account closures. The Tribunal's bank accounts are to be opened and operated in accordance with the following guidelines:

(a) bank accounts shall be designated "official accounts of the International Tribunal for the Law of the Sea" and the relevant authority shall be notified that those accounts are exempt from all taxation;

(b) banks shall be required to provide monthly statements promptly;

(c) two signatures, or their electronic equivalent, shall be required on all cheques and other withdrawal instructions, including electronic modes of payment;

(d) all banks shall be required to recognize that the Registrar is authorized to receive, upon request or as promptly as is practicable, all information pertaining to official bank accounts of the Tribunal.

Rule 108.2
Bank signatories

Bank signatory authority and responsibility is assigned on a personal basis and cannot be delegated. Bank signatories cannot exercise the approving functions assigned in accordance with rule 110.4. Designated bank signatories must:

(a) ensure that there are sufficient funds in the bank account when cheques and other payment instructions are presented for payment;

(b) verify that all cheques and other payment instructions are pre-encumbered, dated and drawn to the order of the named payee approved by an approving officer (designated in accordance with rule 110.4), as indicated in the accompanying disbursement voucher, payment instructions and original invoice;

(c) ensure that cheques and other banking instruments are properly safeguarded and that when they are obsolete they are destroyed in the presence of two officials designated for that purpose by the Registrar.

Rule 108.3
Exchange of currencies

Officials responsible for the operation of the Tribunal's bank accounts or for holding the Tribunal's cash or negotiable instruments are not authorized to exchange one currency for another, except to the extent necessary for the transaction of official business.

Rule 108.4
Cash advances

(a) Petty cash advances may be made only by and to officials designated for this purpose by the Registrar.

(b) The relevant accounts shall be maintained on an imprest system and the amount and purposes of each advance shall be defined by the Registrar.

(c) The Registrar may approve other cash advances as may be permitted by the Staff Regulations and Rules and administrative instructions and as may otherwise be authorized in writing by the Registrar.

(d) Officials to whom cash advances are issued shall be held personally responsible and financially liable for the proper management and safekeeping of cash so advanced and must be in a position to account for the advances at all times. They shall submit monthly accounts, unless otherwise directed by the Registrar.

Rule 108.5
Disbursements/payments

(a) All disbursements shall be made by cheque, by wire transfer or by electronic funds transfer except to the extent that cash disbursements are authorized by the Registrar.

(b) Disbursements shall be recorded in the accounts as of the date when they are made, that is, when the cheque is issued, transfer is effected or cash is paid out.

(c) Except where a paid cheque is returned by the bank or a debit advice is received from the bank, a payee's written receipt shall be obtained for all disbursements.

Rule 108.6
Reconciliation of bank accounts

Every month, unless an exception is authorized by the Registrar, all financial transactions, including bank charges and commissions, must be reconciled with the information submitted by banks in accordance with rule 108.1. This reconciliation must be performed by officials having no actual part in the receipt or disbursement of funds. If the staff situation at the Tribunal makes this impracticable, alternative arrangements may be established in consultation with the Registrar.

REGULATION 9
Investment of funds

9.1 The Registrar may make prudent short-term investments of moneys not needed for immediate requirements and shall inform the Tribunal and the Meeting of States Parties periodically of such investments.

Rule 109.1
Policy

(a) Short-term investments are investments made for less than 12 months.

(b) The Registrar shall ensure, including by establishing appropriate guidelines, that funds are invested in such a way as to place primary emphasis on minimizing the risk to principal funds while ensuring the liquidity necessary to meet the Tribunal's cash-flow requirements. In addition to these criteria, investments shall be selected on the basis of achieving the highest reasonable rate of return and shall accord with the independence and impartiality of the Tribunal and the principles of the Charter of the United Nations.

Rule 109.2
Investment ledger

Investments shall be recorded in an investment ledger, which shall show all the relevant details for each investment, including, for example, face value, cost, date of maturity, place of deposit, proceeds of sale and income earned.

Rule 109.3
Custody of investments

(a) All investments shall be made through, and maintained by, reputable financial institutions designated by the Registrar.

(b) All investment transactions, including the withdrawal of invested resources, require the authorization and signature of two officials designated for that purpose by the Registrar.

9.2 Income derived from investments shall be credited to miscellaneous income or as provided in the rules relating to each fund or account.

Rule 109.4
Income from investments

(a) Income derived from General Fund investments shall be credited as miscellaneous income.

(b) Income derived from Working Capital Fund investments shall be credited to miscellaneous income, as provided for in regulation 6.4.

(c) Income derived from investments pertaining to trust funds reserve and special accounts shall be credited to the trust fund, reserve or special account concerned.

(d) Income from investments must be recorded and reported by the Registrar to the Auditor.

Rule 109.5
Losses

(a) Any investment losses must be recorded, and reported at once to the Registrar. The Registrar may authorize the writing-off of investment losses. A summary statement of investment losses, if any, shall be provided to the Auditor within three months following the end of the financial period.

(b) Investment losses shall be borne by the fund, trust fund, reserve or special account from which the principal amounts were obtained. (See also rule 110.9 with respect to the writing off of losses of cash and receivables.)

REGULATION 10
Internal control

10.1 The Registrar shall:

(a) establish, with the approval of the Tribunal, detailed financial rules and procedures in order to ensure effective financial administration and the exercise of economy. These rules and procedures shall be brought to the Meeting of States Parties for its consideration;

(b) cause all payments to be made on the basis of supporting vouchers and other documents which ensure that the services or goods have been received and that payments have not previously been made;

(c) designate the officers who may receive moneys, incur obligations and make payments on behalf of the Tribunal;

(d) maintain an internal financial control which shall provide for effective current examination and/or review of financial transactions in order to ensure:

(i) the regularity of the receipt, custody and disposal of all funds and other financial resources of the Tribunal;

(ii) the conformity of obligations and expenditures with the appropriations or other financial provisions voted by the Meeting of States Parties, or with the purposes and rules relating to trust funds and special accounts;

(iii) the economic use of the resources of the Tribunal.

10.2 Obligations for the current financial period or commitments for current and future financial periods shall be incurred only after allotments or other appropriate authorizations have been made in writing under the authority of the Registrar.

Rule 110.1
Authorization

The utilization of all funds requires the prior authorization of the Registrar. Such authorization may take the form of:

(a) an allotment of funds or other authorization to commit, obligate and expend specified funds for specified purposes during a specified period;

(b) an authorization to employ staff against an approved staffing table.

Rule 110.2
Certification and approval

Notwithstanding bank signatory functions assigned in accordance with rule 108.2, all commitments, obligations and expenditures require at least two authorizing signatures, in either conventional or electronic form. All commitments, obligations and expenditures must first be signed ("certified") by a duly designated certifying officer (rule 110.3). Following certification, duly designated approving officers (rule 110.4) must then sign to "approve" the establishment of obligations and the recording of expenditures in the accounts and the processing of payments. Expenditures recorded against an established, certified obligation do not require additional certification, provided that they do not exceed the amount obligated by more than 10 per cent or €2,500 (or its equivalent in other currencies), whichever is lower (rule 110.5). Expenditures under €2,500 (or its equivalent in other currencies) for which the recording of an obligation is unnecessary require both certification and approval.

Rule 110.3
Certifying officers

(a) One or more officials shall be designated by the Registrar as the certifying officer(s) for the account(s) pertaining to a section or subsection of an approved budget. Certifying authority and responsibility is assigned on a personal basis and cannot be delegated. A certifying officer cannot exercise the approving functions assigned in accordance with rule 110.4.

(b) Certifying officers are responsible for managing the utilization of resources, including posts, in accordance with the purposes for which those resources were approved, the principles of efficiency and effectiveness and the Financial Regulations and Rules of the Tribunal. Certifying officers must maintain detailed records of all obligations and expenditures against the accounts for which they have been delegated responsibility. They must be prepared to submit any supporting documents, explanations and justifications requested by the Registrar.

Rule 110.4
Approving officers

(a) Approving officers are designated by the Registrar to approve the entry into the accounts of obligations and expenditures relating to contracts, agreements, purchase orders and other forms of undertaking after verifying that they are in order and have been certified by a duly designated certifying officer. Approving officers are also responsible for approving the making of payments once they have ensured that they are properly due, confirming that the necessary services, supplies or equipment have been received in accordance with the contract, agreement, purchase order or other form of undertaking by which they were ordered and, if the cost exceeds €2,500 (or its equivalent in other currencies), in accordance with the purpose for which the relevant financial obligation was established. Approving officers must maintain detailed records and must be prepared to submit any supporting documents, explanations and justifications requested by the Registrar.

(b) Approving authority and responsibility is assigned on a personal basis and cannot be delegated. An approving officer cannot exercise the certifying functions assigned in accordance with rule 110.3 or the bank signatory functions assigned in accordance with rule 108.2.

Rule 110.5
Establishment and revision of obligations

(a) Apart from the employment of staff against an authorized staffing table, and consequential commitments under the Staff Regulations and Rules, no undertaking, including by contract, agreement or purchase order, for an amount exceeding €2,500 (or its equivalent in other currencies) shall be entered into until the appropriate credit(s) has (have) been reserved in the accounts. This shall be done through the recording of an obligation(s), against which relevant payments or disbursements, made only on fulfilment of contractual and other obligations, shall be recorded as expenditure. An obligation shall be recorded in the accounts as unliquidated during the period set forth in regulation 4.3 and until such point as it is reobligated, liquidated or cancelled in accordance with regulation 4.4.

(b) If, in the time that elapses between the establishment of an obligation and the processing of final payment, the cost of the relevant goods or services has, for whatever reason, increased by less than €2,500 (or its equivalent in other currencies) or 10 per cent of the obligation, whichever is lower, no change need be made to the amount of the original obligation. If, however, the increase in costs exceeds either of these thresholds, the original obligation must be revised to reflect this increase in requirements and further certification is required. All increases in obligations, including those resulting from currency fluctuations, shall be subject to the same procedures as apply to the incurring of original obligations.

Rule 110.6
Review, reobligation and cancellation of obligations

(a) Outstanding obligations must be reviewed periodically by the responsible certifying officer(s). If an obligation is determined to be valid but cannot be liquidated during the period set forth in regulation 4.2, the provisions of regulation 4.3 shall be applied. Obligations that are no longer valid shall be cancelled from the accounts forthwith, and the resulting credit surrendered.

(b) When any obligation previously recorded in the accounts is, for any reason, reduced (other than by payment) or cancelled, the certifying officer shall accordingly ensure that appropriate adjustments are recorded in the accounts.

Rule 110.7
Obligating documents

An obligation must be based on a formal contract, agreement, purchase order or other form of undertaking, or on a liability recognized by the Tribunal. All obligations must be supported by an appropriate obligating document.

10.3 The Registrar, with the approval of the Tribunal, may make such ex gratia payments as he or she deems to be necessary in the interest of the Tribunal, provided that a statement of such payments shall be submitted to the Meeting of States Parties with the accounts.

Rule 110.8
Ex gratia payments

A summary statement of all ex gratia payments shall be provided to the Auditor not later than three months following the end of the financial period.

10.4 The Registrar may, after full investigation, authorize the writing-off of losses of cash, stores and other assets, provided that a statement of all such amounts written off shall be submitted to the Auditor with the accounts together with the justifications attached thereto and brought to the Meeting of States Parties for its consideration.

Rule 110.9
Writing off of losses of cash and receivables

(a) The Registrar may, after full investigation, authorize the writing off of losses of cash and the book value of accounts and receivables deemed to be irrecoverable. A detailed statement of losses of cash and receivables shall be provided to the Auditor not later than three months following the end of the financial period.

(b) The investigation shall, in each case, fix the responsibility, if any, attaching to any official of the Tribunal for the loss or losses. Such official(s) may be required to reimburse the Tribunal either partially or in full. Final determination as to all charges to be made against staff members or others as the result of losses will be made by the Registrar.

Rule 110.10
Writing off of losses of property

(a) The Registrar may, after full investigation, authorize the writing off of losses of property of the Tribunal, and adjust the record to bring the balance shown into conformity with actual, physical property. A detailed statement of losses of non-expendable property shall be provided to the Auditor not later than three months following the end of the financial period.

(b) The investigation shall, in each case, fix the responsibility, if any, attaching to any official of the Tribunal for the loss or losses. Such official(s) may be required to reimburse the Tribunal either partially or in full. Final determination as to all charges to be made against staff members or others as the result of losses will be made by the Registrar.

10.5 Substantial purchases of equipment, supplies and other requirements as specified in the Financial Rules shall be by tender. Such tenders shall be invited by advertisement, except where the Registrar, with the approval of the President of the Tribunal, deems that, in the interests of the Tribunal, a departure from the rule is desirable.

Rule 110.11
General principles

Procurement functions include all actions necessary for the acquisition, by purchase or lease, of property, including products and real property, and of services, including works. The following general principles shall be given due consideration when exercising the procurement functions of the Tribunal:

(a) best value for money;

(b) fairness, integrity and transparency;

(c) effective international competition;

(d) the interest of the Tribunal.

Rule 110.12
Authority and responsibility for procurement

(a) The Registrar is responsible for the procurement functions of the Tribunal, shall establish all its procurement systems and shall designate the officials responsible for performing procurement functions.

(b) The Registrar shall establish a review committee to render written advice to the Registrar on procurement actions leading to the award or amendment of procurement contracts, which, for

purposes of these Regulations and Rules, includes agreements or other written instruments such as purchase orders and contracts that involve income to the Tribunal. The Registrar shall establish the composition and the terms of reference of the committee, which shall include the types and monetary values of proposed procurement actions subject to review.

(c) Where the advice of the review committee is required, no final action leading to the award or amendment of a procurement contract may be taken before such advice is received. In cases where the Registrar decides not to accept the advice of such a review committee, he or she shall record in writing the reasons for that decision.

Rule 110.13
Competition

Consistent with the principles set out in rule 110.11 and except as provided in rule 110.15, procurement contracts shall be awarded on the basis of effective competition, and to this end the competitive process shall, as necessary, include:

(a) acquisition planning for developing an overall procurement strategy and procurement methodologies;

(b) market research for identifying potential suppliers;

(c) consideration of prudent commercial practices;

(d) formal methods of solicitation, utilizing invitations to bid or requests for proposals on the basis of advertisement or direct solicitation of invited suppliers; or informal methods of solicitation, such as requests for quotations. The Registrar shall issue administrative instructions concerning the types of procurement activities and monetary values for which such methods of solicitation are to be used;

(e) public bid openings.

Rule 110.14
Formal methods of solicitation

(a) When a formal invitation to bid has been issued, the procurement contract shall be awarded to the qualified bidder whose bid substantially conforms to the requirements set forth in the solicitation document and is evaluated to be the lowest cost to the Tribunal.

(b) When a formal request for proposals has been issued, the procurement contract shall be awarded to the qualified proposer whose proposal is the most responsive to the requirements set forth in the solicitation document.

(c) The Registrar may, in the interest of the Tribunal, reject bids or proposals for a particular procurement action, recording the reasons for rejection in writing. The Registrar shall then determine whether to undertake a new solicitation, or to directly negotiate a procurement contract pursuant to rule 110.15, or to terminate or suspend the procurement action.

Rule 110.15
Exceptions to the use of formal methods of solicitation

(a) The Registrar may, with the approval of the President, determine for a particular procurement action that using formal methods of solicitation is not in the best interest of the Tribunal:

(i) when there is no competitive marketplace for the requirement, such as where a monopoly exists, where prices are fixed by legislation or government regulation, or where the requirement involves a proprietary product or service;

(ii) when there has been a previous determination or there is a need to standardize the requirement;

(iii) when the proposed procurement contract is the result of cooperation with an organization of the United Nations system, pursuant to rule 110.16;

(iv) when offers for identical products and services have been obtained competitively within a reasonable period and the prices and conditions offered remain competitive;

(v) when, within a reasonable prior period, a formal solicitation has not produced satisfactory results;

(vi) when the proposed procurement contract is for the purchase or lease of real property and market conditions do not allow for effective competition;

(vii) when there is an exigency for the requirement;

(viii) when the proposed procurement contract relates to obtaining services that cannot be evaluated objectively;

(ix) when the Registrar determines that for other reasons a formal solicitation will not give satisfactory results;

(x) when the value of the procurement is below the monetary threshold established for formal methods of solicitation.

(b) When a determination is made pursuant to paragraph (a) above, the Registrar shall record the reasons in writing and may then award a procurement contract, either on the basis of an informal method of solicitation, or on the basis of a directly negotiated contract, to a qualified vendor whose offer substantially conforms to the requirement at an acceptable price.

Rule 110.16
Cooperation

(a) The Registrar may cooperate with organizations of the United Nations system to meet the procurement requirements of the Tribunal, provided that the regulations and rules of those organizations are consistent with those of the Tribunal. The Registrar may, as appropriate, enter into agreements for such purposes. Such cooperation may include carrying out common procurement actions together, or the Tribunal entering into a contract in reliance on a procurement decision of a United Nations organization, or requesting a United Nations organization to carry out procurement activities on behalf of the Tribunal.

(b) The Registrar may, to the extent authorized by the Meeting of States Parties, cooperate with a Government, non-governmental organization or other public international organization in respect of procurement activities and, as appropriate, enter into agreements for such purposes.

Rule 110.17
Written contracts

(a) Written procurement contracts shall be used to formalize every procurement for a monetary value over specific thresholds established by the Registrar. Such arrangements shall, as appropriate, specify in detail:

(i) the nature of the products or services being procured;

(ii) the quantity being procured;

(iii) the contract or unit price;

(iv) the period covered;

(v) conditions to be fulfilled, including the Tribunal's general conditions of contract and implications for non delivery;

(vi) terms of delivery and payment;

(vii) name and address of supplier.

(b) The requirement for written procurement contracts shall not be interpreted to restrict the use of any electronic means of data interchange. Before using any electronic means of data interchange, the Registrar shall ensure that the electronic data interchange system is capable of ensuring authentication and confidentiality of the information.

Rule 110.18
Advance and progress payments

(a) Except where normal commercial practice or the interests of the Tribunal so require, no contract or other form of undertaking shall be made on behalf of the Tribunal which requires a payment or payments on account in advance of the delivery of products or the performance of contractual services. Whenever an advance payment is agreed to, the reasons therefor shall be recorded.

(b) In addition to subparagraph (a) above and notwithstanding rule 103.6, the Registrar may, where necessary, authorize progress payments.

Rule 110.19
Authority and responsibility on property management

(a) The Registrar is responsible for the management of the property of the Tribunal, including all systems governing its receipt, recording, utilization, safe keeping, maintenance and disposal, including by sale, and shall designate the officials responsible for performing property management functions.

(b) A summary statement of non-expendable Tribunal property shall be provided to the Auditor not later than three months following the end of the financial period.

Rule 110.20
Inventories

An inventory shall be taken of supplies, equipment or other property of the Tribunal or entrusted to the charge of the Tribunal at such intervals as deemed necessary to ensure adequate control over such property. Where

property is of a kind used and/or administered by only one organizational unit, the Registrar may delegate responsibility for making arrangements for preparing such inventories to the head of that organizational unit.

Rule 110.21
Property Survey Board

(a) The Registrar shall establish a Property Survey Board, to render written advice in respect of loss, damage or other discrepancy regarding the property of the Tribunal. The Registrar shall establish the composition and terms of reference of the Board, which shall include procedures for determining the cause of such loss, damage or other discrepancy, the disposal action in accordance with rule 110.21, and the degree of responsibility, if any, attaching to any Tribunal official or other party for such loss, damage or other discrepancy.

(b) Where the advice of the Board is required, no final action in respect of the loss, damage or other discrepancy may be taken before such advice is received. In cases where the Registrar decides not to accept the advice of the Board, the Registrar shall record in writing the reasons for that decision.

Rule 110.22
Sale/disposal of property

(a) The Registrar shall be responsible for the disposal of property by sale. The Registrar may delegate authority as necessary.

(b) Sales of supplies, equipment or other property declared surplus or unserviceable shall be based on competitive bidding, unless the Property Survey Board:

(i) estimates that the sales value is less than € 5,000 ;

(ii) considers that the exchange of property in partial or full payment for the replacement equipment or supplies is in the best interests of the Tribunal;

(iii) deems it appropriate to transfer surplus property from one office or programme for use in another and determines the fair market value at which the transfer(s) shall be effected;

(iv) determines that the destruction of the surplus or unserviceable material will be more economical or is required by law or by the nature of the property;

(v) determines that the interests of the Tribunal will be served through the disposal of the property by gift or sale at nominal prices to another intergovernmental organization, a Government or government agency or some other non-profit organization.

Rule 110.23
Sale of property

Except as provided for in rule 110.22 above, property shall be sold on the basis of payments on or before delivery.

REGULATION 11
The accounts

11.1 The Registrar shall submit accounts for the financial period. In addition, the Registrar shall maintain, for management purposes, such accounting records as are necessary. The accounts for the financial period shall show:

(a) the income and expenditures of all funds;

(b) the status of appropriations, including:

(i) the original budget appropriations;

(ii) the appropriations as modified by any transfers;

(iii) credits, if any, other than the appropriations adopted by the Meeting of States Parties;

(iv) the amounts charged against those appropriations and/or other credits.

(c) the assets and liabilities of the Tribunal. The Registrar shall also give such other information as may be appropriate to indicate the current financial position of the Tribunal.

Rule 111.1
Principal accounts

In accordance with regulations 11.1 and 11.3, the principal accounts of the Tribunal shall include detailed, comprehensive and up-to-date records of assets and liabilities for all sources of funds. The principal accounts shall consist of:

(a) programme budget acccunts, showing:

(i) orginal appropriations;

(ii) appropriations as modified by transfers;

(iii) credits (other than appropriations made available by the Meeting of States Parties);

(iv) expenditures, including payments and other disbursements and unliquidated obligations;

(v) unencumbered balances of allotments and appropriations.

(b) general ledger accounts, showing: all cash at banks, investments, receivables and other assets, payables and other liabilities;

(c) the Working Capital Fund and all trust funds, reserve or other special accounts.

Rule 111.2
Authority and responsibility for accounts

Responsibility for the accounts is assigned to the Registrar who shall establish all accounting procedures of the Tribunal and designate the officials responsible for performing accounting functions.

Rule 111.3
Accrual basis accounting

Unless otherwise directed by the Registrar, or by the particular terms governing the operation of a trust fund, reserve or special account, all financial transactions shall be recorded in the accounts on an accrual basis.

11.2 The accounts of the Tribunal shall be presented in euros. Accounting records may, however, be kept in such currency or currencies as the Registrar may deem necessary.

11.3 Appropriate separate accounts shall be maintained for all trust funds and special accounts.

Rule 111.4
Accounting for exchange rate fluctuations

(a) The Registrar shall establish the operational rates of exchange between the euro and other currencies, on the basis of the operational rates of exchange established by the Secretariat of the United Nations. The operational rate(s) of exchange shall be used for the recording of all Tribunal transactions.

(b) Payments in currencies other than the euro will be determined on the basis of the operational rate(s) of exchange prevailing at the time of payment. Any difference between the actual amount(s) received on exchange and the amount(s) that would have been obtained at the operational rate(s) of exchange shall be accounted for as loss or gain on exchange.

(c) When closing the final accounts for a financial period, any negative balance on the account for "loss or gain on exchange" shall be debited to the relevant budget account, while any positive balance shall be credited to miscellaneous income.

Rule 111.5
Accounting for proceeds from the sale of property

The proceeds from the sale of property shall be credited as miscellaneous income except:

(a) where the Property Survey Board has recommended the application of these proceeds directly against the purchase price of replacement equipment or supplies (any balance shall be taken into account as miscellaneous income);

(b) when the trade-in property is not considered to be a sale, and the allowance shall be applied against the cost of the replacement property;

(c) where the normal practice is to secure and use certain material or equipment in connection with a contract and to salvage and sell such material or equipment at a later stage;

(d) when the proceeds from the sale of surplus equipment shall be credited to the relevant programme account, provided that it has not been closed;

(e) when equipment transferred from one programme for use in another and the account of the releasing programme is open, the fair market value of such equipment shall be credited to the account of the releasing programme and charged to the account of the receiving programme.

Rule 111.6
Accounting for commitments against future financial periods

Obligations established prior to the financial period to which they pertain, pursuant to regulation 3.7 and rule 103.6, shall be recorded against a deferred charge account. Deferred charges shall be transferred to the appropriate account when the necessary appropriations and funds become available.

11.4 The accounts for the financial period shall be submitted by the Registrar to the Auditor not later than 31 March following the end of the financial period.

Rule 111.7
Financial statements

(a) For all accounts of the Tribunal, financial statements covering the financial period, as of 31 December, shall be submitted to the Auditor in euros not later than 31 March following the end of

such period. Copies of financial statements shall also be transmitted to the Tribunal. Additional financial statements may be prepared as and when the Registrar deems necessary.

(b) Financial statements submitted to the Auditor for all accounts shall include:

(i) a statement of income, expenditures and changes in reserves and fund balances;

(ii) a statement of assets, liabilities, reserves and fund balances;

(iii) a statement of cash flows;

(iv) such other schedules as may be required;

(v) notes to the financial statements.

Rule 111.8
Archives

Accounting records, other financial and property records, and all supporting documents shall be retained for such periods as may be agreed with the Auditor. This period may not be less than ten years. Once this period has elapsed, the records and supporting documents may be destroyed on the authority of the Registrar. Where appropriate, such records and supporting documents shall be preserved by electronic means.

REGULATION 12
Audit

12.1 The Meeting of States Parties shall appoint an Auditor, which may be an internationally recognized firm of auditors or an Auditor General or an official of a State Party with an equivalent title. The Auditor shall be appointed for a period of four years and its appointment may be renewed. The Tribunal may make proposals regarding the appointment of the Auditor.

12.2 The audit shall be conducted in conformity with generally accepted common auditing standards and in accordance with the additional terms of reference set out in the annex to these Regulations.

12.3 The Auditor may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Tribunal.

12.4 The Auditor shall be completely independent and solely responsible for the conduct of the audit.

12.5 The Meeting of States Parties and/or the Tribunal may request the Auditor to perform certain specific examinations and issue separate reports on the results.

12.6 The Registrar shall provide the Auditor with the facilities required in the performance of the audit.

12.7 The Auditor shall issue a report on the audit of the financial statements and relevant schedules relating to the accounts for the financial period, which shall include such information as the Auditor deems necessary with regard to matters referred to in regulation 12.3 and in the additional terms of reference

12.8 The Tribunal shall examine the financial statements and the audit reports and shall forward them to the Meeting of States Parties, with such comments as it deems appropriate.

REGULATION 13
Decisions involving expenditures

13. Where, in the opinion of the Registrar, the proposed expenditure cannot be made from the existing appropriations, it shall not be incurred until the Meeting of States Parties has made the necessary appropriations or unless the Registrar certifies that provision can be made under the conditions of an applicable decision of the Meeting of States Parties relating to unforeseen and extraordinary expenses.

Rule 113.1
Decisions involving expenditures

(a) The Tribunal shall not take a decision involving either a change in the budget approved by the Meeting of States Parties or the possible requirement of expenditure unless it has received and taken account of a report of the Registrar on the budget implications of the proposal.

(b) All heads of organizational units are responsible for preparing, and when requested, presenting to the Tribunal the statements on budget implications required under (a).

REGULATION 14
General provisions

14.1 These Regulations shall become effective on 1 January 2004 and shall apply to the financial period 2005 - 2006 and to subsequent financial periods.

14.2 These Regulations may be amended by the Meeting of States Parties taking into account the views of the Tribunal.

Rule 114.1
Effective date

These Rules shall become effective on 1 January 2005.

Rule 114.2
Amendment of Rules

(a) These Rules may be amended by the Meeting of States Parties.

(b) Unless the Meeting of States Parties is seized of a specific proposal for amendment of a rule, the Tribunal, acting upon a proposal presented by the Registrar, may amend the Rules if the Tribunal is convinced that the amendment contributes towards better ensuring the principles of effective financial administration and the exercise of economy.

(c) An amendment enacted by the Tribunal will apply provisionally until such time as the Meeting of States Parties decides to endorse the amendment. If the Meeting of States Parties decides not to endorse the amendment, the unamended rule, or any rule that the Meeting of States Parties decides to adopt in its place, shall become effective as of the day on which the Meeting of States Parties takes that decision.

Annex to the Financial Regulations

Additional terms of reference governing the audit of the International Tribunal for the Law of the Sea

1. The Auditor shall perform such audit of the accounts of the Tribunal, including all trust funds and special accounts, as it deems necessary in order to satisfy itself:

   (a) That the financial statements are in accord with the books and records of the Tribunal;

   (b) That the financial transactions reflected in the statements have been in accordance with these Regulations and the Financial Rules, the budgetary provisions and other applicable directives;

   (c) That the securities and moneys on deposit and on hand have been verified by certificates received directly from the Tribunal's depositaries or by actual count;

   (d) That the internal controls, including internal oversight, are adequate in the light of the extent of reliance placed thereupon.

2. The Auditor shall be the sole judge as to the acceptance in whole or in part of certifications and representations by the Registrar and may proceed to such detailed examination and verification as it chooses of all financial records, including those relating to supplies and equipment.

3. The Auditor and its staff shall have free access at all convenient times to all books, records and other documentation which are, in the opinion of the Auditor, necessary for the performance of the audit. Information which is classified as privileged and which the Registrar (or a designated senior official) agrees is required by the Auditor for the purposes of the audit and information classified as confidential shall be made available on application. The Auditor and its staff shall respect the privileged and confidential nature of any information so classified which has been made available and shall not make use of it except in direct connection with the performance of the audit. The Auditor may draw the attention of the Tribunal and the Meeting of States Parties to any denial of information classified as privileged which, in its opinion, was required for the purpose of the audit.

4. The Auditor shall have no power to disallow items in the accounts but shall draw the attention of the Registrar, for appropriate action, to any transaction for which it entertains doubt as to legality or propriety. Audit objections, to these or any other transactions, arising during the examination of the accounts shall be communicated immediately to the Registrar.

5. The Auditor (or such of its officers as it may designate) shall express and sign an opinion on the financial statements which shall read as follows:

   "We have examined the following appended financial statements, numbered ... to ..., properly identified, and relevant schedules of the International Tribunal for the Law of the Sea for the financial period ended 31 December .... Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances."

   The opinion shall also state, as appropriate, whether:

   (a) The financial statements present fairly the financial position as at the end of the period and the results of operations for the period then ended;

   (b) The financial statements were prepared in accordance with the stated accounting principles;

(c) The accounting principles were applied on a basis consistent with that of the preceding financial report;

(d) Transactions were in accordance with these Regulations and legislative authority.

6. The report of the Auditor on the financial operations of the Tribunal for the financial period shall be submitted to the Meeting of States Parties through the Tribunal. It shall indicate:

(a) The type and scope of the Auditor's examination;

(b) Matters affecting the completeness and accuracy of the accounts, including, where appropriate:

(i) Information necessary for the correct interpretation of the accounts;

(ii) Any amounts which ought to have been received but which have not been brought to account;

(iii) Any amounts for which a legal or contingent obligation exists and which have not been recorded or reflected in the financial statements;

(iv) Expenditures not properly substantiated;

(v) Whether proper books of accounts have been kept; where in the presentation of statements there are deviations of a material nature from the generally accepted accounting principles applied on a consistent basis, these should be disclosed;

(c) Other matters which the Auditor considers should be brought to the notice of the Meeting of States Parties, such as:

(i) Cases of fraud or presumptive fraud;

(ii) Wasteful or improper expenditure of the Tribunal's money or other assets, notwithstanding that the accounting for the transaction may be correct;

(iii) Expenditure likely to commit the Tribunal to further outlay on a large scale;

(iv) Any defect in the general system or detailed regulations governing the control of receipts and disbursements or of supplies and equipment;

(v) Expenditure not in accordance with the intention of the Meeting of States Parties after making allowance for duly authorized transfers within the budget;

(vi) Expenditure in excess of appropriations as amended by duly authorized transfers within the budget;

(vii) Expenditure not in conformity with the authority which governs it;

(d) The accuracy or otherwise of the supplies and equipment records as determined by stock-taking and examination of the reports;

(e) If appropriate, transactions accounted for in a previous period concerning which further information has been obtained or transactions in a later period concerning which it seems desirable that the Meeting of States Parties should have early knowledge.

7. The Auditor may make such observations with respect to its findings resulting from the audit and such comments on the Registrar's financial report as it deems appropriate to the Meeting of States Parties, the Tribunal or the Registrar.

8. Whenever the scope of audit of the Auditor is restricted, or whenever it is unable to obtain sufficient evidence, it shall refer to the matter in its opinion and report, making clear in the report the reasons for its comments and the effect on the financial position and the financial transactions as recorded.

9. In no case shall the Auditor include criticism in its report without first affording the Registrar an adequate opportunity of explanation on the matter under observation.

10. The Auditor shall not be required to mention any matter referred to in the foregoing that, in its opinion, is insignificant in all respects.

United Nations Convention on the Law of the Sea SPLOS/121

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Report of the External Auditors for the financial year 2003, with financial statements of the International Tribunal for the Law of the Sea as of 31 December 2003

Introductory note

1. PricewaterhouseCoopers (hereinafter "the Auditor") audited the financial statements of the Tribunal for the financial year 2003 in April 2004 and submitted its report on 4 June 2004.

2. It is noted from the report that the Auditor was of the view that the financial statements presented fairly, in all material aspects, the financial position of the Tribunal, in conformity with generally accepted accounting principles and the Financial Regulations of the United Nations, which had been applied mutatis mutandis. The Auditor further stated that the Tribunal's operational procedures were also in accordance with its Rules and Staff Rules as well as the Financial Regulations and Staff Rules of the United Nations, as applied mutatis mutandis.

3. In accordance with financial regulation 12.8 (SPLOS/36), the Tribunal examined the Auditor's report on the financial statements at its eighteenth session and decided to forward it to the Meeting of States Parties.

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A. Scope of the examination

1. We have audited the accompanying annual financial statements of the International Tribunal for the Law of the Sea, Hamburg (hereinafter also referred to as "the Tribunal" or "ITLOS") consisting of the statement of income and expenditures for the period from 1 January to 31 December 2003 (exhibit I), the statement of assets, liabilities, the Working Capital Fund and excess of income over expenditures as of 31 December 2003 (exhibit II), the notes to the financial statements for the period from 1 January to 31 December 2003 (exhibit III) and the financial report of the Registrar for the period from 1 January to 31 December 2003 (exhibit IV), hereinafter referred to together as the "annual financial statements". Within the scope we have additionally audited certain aspects of operating procedures for the year ended 31 December 2003 as directed by the President of the International Tribunal for the Law of the Sea in his letter of 8 April 2004. The preparation of the annual financial statements is the responsibility of the Registrar of the Tribunal. Our responsibility is to express an opinion on these annual financial statements and the following aspects of the operational procedures:

1. Expenditures incurred have been appropriately authorized by the party designated for that purpose in the Rules of the Tribunal and the Financial Regulations of the United Nations;

2. Staff and persons being paid by the Tribunal have been recruited or engaged in the manner provided in the Rules of the Tribunal or the Financial Regulations of the United Nations;

3. Goods and services have been procured in accordance with the procedures provided for in the Financial Regulations of the United Nations; and

4. Goods and services which have been procured are necessary or not excessive, having regard to circumstances and the functions of the Tribunal.

2. The annual financial statements of the Tribunal for 2003 have been prepared in accordance with generally accepted accounting principles and the Financial Regulations and Rules of the United Nations, which were applied mutatis mutandis.

3. We conducted our audit in accordance with German audit regulations and generally accepted standards for the audit of the financial statements promulgated by the *Institut der Wirtschaftsprüfer in Deutschland* (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis of our opinion.

4. Reference is made to the General Terms of Engagement for "*Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften*" dated 1 January 2002 and our special conditions dated 1 January 2001 (exhibit VII), in regard to the assignment and our responsibilities, including those to third parties.

B. Budget

5. The Meeting of States Parties, at its twelfth meeting (16 to 26 April 2002), approved and appropriated an amount of $7,798,300 United States dollars as the budget for the period from 1 January to 31 December 2003 as set out in document SPLOS/90.

6. With a view to providing the Tribunal with the necessary financial means to consider cases in 2003, in particular those requiring expeditious proceedings, the Meeting also approved an amount of $987,900 in 2003 as contingency funds of the Tribunal, which shall only be used in the event of cases submitted to the Tribunal.

7. The Meeting of States Parties, at its thirteenth meeting (9 to 13 June 2003), by its decision of 12 June 2003 (SPLOS/98), decided that the Tribunal shall deduct from the contributions of States Parties for 2004 the amount in the staff assessment fund as of 31 December 2002 pro rata to their contributions thereto for each financial year concerned. Accordingly the funds included in the assessment special account at 31 December 2002 in the amount of $2,365,865 have been transferred in 2003 to the new reporting line "Surrender of withholdings from staff assessments". The amount of staff assessment accumulated in the financial year 2003 ($614,374) shall be used to reimburse officials and members of the Tribunal for national taxes paid in respect of remuneration paid by the Tribunal in 2003 and 2004 and accordingly have been included by the Tribunal in the assessment special account. Thereafter the amounts remaining in the staff assessment fund shall be deducted from contributions of States Parties for 2005-2006.

8. In accordance with the decision made at the twelfth Meeting of States Parties on 25 April 2002, the Tribunal has surrendered in 2003 the savings from the budgets of the Tribunal for 1998, 1999 and 2000 in the total amount of $2,633,220 to the States Parties. A deduction of the amount of such savings was made from the assessed contributions of the States Parties for 2003. The savings from the 2001 budget of the Tribunal amounting to $833,269 and included under "Liabilities" at 31 December 2003 shall be surrendered to the States Parties in 2004.

9. The statement of income and expenditure for the period from 1 January to 31 December 2003 shows an excess of income over expenditure of $141,776 (see exhibit I). Included in this amount are $58,902: other net income from different sources like interest income ($16,341), gains from currency transactions ($12,244), savings from the release of provisions for unliquidated obligations prior years ($40,720) and German social security payments recovered from staff ($35,543), which was partly offset through miscellaneous expenses ($45,946).

10. From the approved budget for the period 2003 amounting to $7,798,300, an amount totalling $7,715,426 was spent against approved budget lines, resulting into savings of $82,874 (see exhibit V). Significant overexpenditures have been noted in the budget lines "Established posts" ($561,349), "Common staff costs" ($123,609), "Maintenance of premises" ($118,062) and "Special allowances for judges" ($24,315). These overexpenditures were, however, offset through savings in the "Contingency fund" ($541,996) and the optimal use of resources in other budget lines.

11. The overexpenditure in total staff costs and maintenance of the premises resulted mainly from the unfavourable development of the United States dollar vis-

à-vis the euro since the related expenditures under these budget lines are primarily incurred in euros and therefore need to be translated into United States dollars at the prevailing United Nations operational rates of exchange when entered into the accounts.

12. The budget for the year 2003 was prepared and approved in April 2002. Expenditures for staff costs and maintenance of the premises mainly denominated in euros have been translated into United States dollars in April 2002 at an average euro to dollar exchange rate of 0,8636. Expenditures actually incurred in 2003 increased by some 30 per cent, primarily as a result of exchange rate fluctuations, as the average euro to dollar exchange rate applied in 2003 increased from 0,836 in 2002 to 1,1876 in 2003.

13. This development could not be foreseen by the Tribunal, when preparing the 2003 budget and as the budgetary estimates did not appropriately reflect the weakening United States dollar, the Meeting of States Parties, at its thirteenth meeting, authorized the Registrar, in the event that the Tribunal would not be able to meet the approved expenditures for 2003, to incur such expenditures to the extent that the shortfall in appropriations results from unforeseeable increases and/or from exchange rate fluctuations. The Meeting further authorized the Registrar to finance such overexpenditures by transfers between appropriation sections as far as possible and, if necessary, by using the savings from the financial period 2002.

14. Eliminating the impacts from changes in the applied exchange rates, the Tribunal has achieved the approved budgets in all material respects and therefore was authorized to finance the overexpenditures in the budget lines "Established posts", "Common staff costs" and "Maintenance of premises" by transfers of savings from other budget lines.

15. Budget estimates included in the contingency funds are mainly based on the number of cases submitted to the Tribunal during the year. As only one of two anticipated cases emerged during 2003 and the meeting time for the judges of the Tribunal in Hamburg was shorter than provided for in the budget, savings of $541,996 in the contingency funds could be realized in 2003. However, due to the dollar rate movements described before, the relative costs escalated and there would not have been adequate budget in the event that a second case would have been submitted to the Tribunal in 2003.

16. Savings in judges remuneration resulted mainly from the death of one judge in March 2003 and, additionally, fewer costs manifested from the contingency provision.

17. Equipment purchased during the year was lower than planned due to a scale down of original purchases planned. The Tribunal has mainly invested in information technology (IT) over the past years, and now spends on new items only on a rotational basis.

C. Audit opinion

We have audited the annual financial statements consisting of the statement of income and expenditures (exhibit I), the statement of assets, liabilities, Working Capital Fund and excess of income over expenditures (exhibit II), the notes to the financial statements (exhibit III) and the financial report of the Registrar (exhibit

IV), hereinafter referred to together as the "annual financial statements", together with the bookkeeping system of the International Tribunal for the Law of the Sea, Hamburg, for the business year from 1 January to 31 December 2003. The maintenance of the books and records and the preparation of the annual financial statements in accordance with generally accepted accounting principles and with the Financial Regulations of the United Nations which were applied mutatis mutandis are the responsibility of Tribunal's Registrar. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system.

We conducted our audit of the annual financial statements in accordance with section 317 of the German Commercial Code and the German generally accepted standards for the audit of the financial statements promulgated by the *Institut der Wirtschaftsprüfer* (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting are detected with reasonable assurance. Knowledge of the operational activities and the economic and legal environment of the Tribunal and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the financial report of the Registrar are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Registrar, as well as evaluating the overall presentation of the annual financial statements and the financial report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Tribunal in accordance with principles of proper accounting and with the Financial Regulations and Rules of the United Nations which were applied mutatis mutandis. Additionally, the operational procedures of the International Tribunal for the Law of the Sea as detailed in exhibit VI were in accordance with the Rules and Staff Rules of the International Tribunal for the Law of the Sea and the Financial Regulations and Rules of the United Nations applied mutatis mutandis.

Hamburg, 16 May 2004

PricewaterhouseCoopers
GmbH
Wirtschaftsprüfungsgesellschaft

(*Signed*) (W. Schöppich)
Wirtschaftsprüfer

(*Signed*) (K. V. Rother)
Wirtschaftsprüfer

Exhibit I

Statement of income and expenditures for the period from 1 January to 31 December 2003

(In United States dollars)

Statement I

	2003	*2002*
Assessed contributions	7 798 300	7 807 500
Other Income		
Interest income (net)	16 341	67 057
Savings on cancellation of prior period obligations	40 720	101 066
Gains/losses (-) on exchange	12 244	-88 146
Miscellaneous income/expense (-)	-10 403	86 976
Total Income	**7 857 202**	**7 974 453**
Expenditure		
Total expenditure and obligations (Exhibit V)	-7 715 426	-7 016 029
Excess of income over expenditure	**141 776**	**958 424**

Exhibit II

Statement of assets, liabilities, Working Capital Fund and excess of income over expenditures as at 31 December 2003

(In United States dollars)

Statement 2

	2003	*2002*
Assets		
Cash and term deposits	5 082 954	7 573 989
Accounts receivable		
Contributions receivable from States Parties	1 708 091	1 621 500
Tax reimbursement due	268 181	155 944
Accounts receivable — other	50 708	182 732
Total assets	**7 109 934**	**9 534 165**
Liabilities		
Contributions received in advance	629 652	625 569
Surrender of savings prior years to States Parties	833 269	2 633 220
Surrender of withholdings from staff assessments	2 356 865	0
Obligations — current period	425 339	973 410
Unliquidated obligations — prior periods	0	0
Korea fund	235	3 408
Assessment special account	614 374	2 356 865
Total liabilities	**4 859 734**	**6 592 472**
Working Capital Fund	1 150 000	1 150 000
Prior period Gains-Reserve	958 424	833 269
Excess of income over expenditure	141 776	958 424
Total reserves and Fund balances	**2 250 200**	**2 941 693**
Total liabilities, reserves and Fund balances	**7 109 934**	**9 534 165**

Exhibit III

Notes to the financial statements for the period from 1 January to 31 December 2003

Note 1. Statement of the objectives and activities of the Tribunal

The International Tribunal for the Law of the Sea (ITLOS) is an international judicial body established by the United Nations Convention on the Law of the Sea to adjudicate disputes arising out of the interpretation and application of the Convention. It began its activities in 1996. The Tribunal is open to States Parties to the Convention and, in certain cases, to entities other than States Parties (such as international organizations and natural or legal persons). The jurisdiction of the Tribunal comprises all disputes submitted to it in accordance with the Convention. It also extends to all matters specifically provided for in any other agreement, which confers jurisdiction of the Tribunal. The Tribunal is composed of 21 independent members elected by the States Parties to the Convention.

Note 2. Summary of significant accounting policies

The fourth Meeting of the States Parties to the United Nations Convention on the Law of the Sea decided that pending the adoption of the Tribunal's Financial Regulations, the Financial Regulations of the United Nations would apply mutatis mutandis to the Tribunal. The thirteenth Meeting of States Parties in 2003 adopted the Financial Regulations of the Tribunal and decided that they should become effective on 1 January 2004 and apply to the financial period 2005-2006 and subsequent financial periods (SPLOS/100). With regard to the financial period 2003, the Tribunal's accounts were therefore maintained unchanged to the prior period in accordance with the Financial Regulations and Rules of the United Nations with such modifications as required by the nature and scope of work of the Tribunal.

The form of presentation of the accounts, comprising two statements and one annex (exhibit V) for the financial period ending 31 December 2003, is in line with the formats proposed for use by the agencies of the United Nations system.

Accounting period

The current accounting period which is subject to this report is from 1 January to 31 December 2003.

Currency of accounts

The accounting unit is the United States dollar. The United Nations operational rates of exchange are the basis for establishing the equivalent in United States dollars of other currencies.

Translation of currencies

Differences between the valuation of the currencies when entered into the accounts and when actual transactions are completed are calculated and detailed in these notes as gains and losses on exchange transactions.

Periodically, assets and liabilities in currencies other than the United States dollar are revalued for accounting purposes at the prevailing United Nations

operational rates of exchange. Any variance due to fluctuation of those rates is accounted for as income or loss in the statement of income and expenditure.

Income

Income consists of assessed contributions from the States Parties. All other income received by the Tribunal is classified as miscellaneous income and is included as general resources (see note 4).

Expenditure

All expenditure of the Tribunal is recorded against allocated lines of budgetary appropriation. In accordance with the decision taken by the thirteenth Meeting of States Parties (SPLOS/99), the Tribunal was able to finance any overexpenditure by transfers between appropriation sections (see note 5).

Expenditures of the Tribunal are accounted for on an accrual basis, except for those relating to staff entitlements, which are accounted for on the basis of cash disbursements. No provision is made for staff entitlements due to repatriation, accumulated annual leave and compensatory time liability (see note 3).

Assets

All funds received are deposited into the Tribunal's bank accounts, including those under special account arrangements (see note 6), and reflected as cash holdings. Non-expendable equipment (especially computer hardware and software) is not included in the assets but is charged against the current appropriations when acquired.

Liabilities

The liabilities of the Tribunal at 31 December 2003 include contributions received in advance from States Parties for the budget period 2004 ($629,652 United States dollars), obligations from the surrender of savings for 2001 ($833,269) and withholdings from staff assessments ($2,356,865), obligations from goods and services procured in 2003 ($425,339) and a special account maintained for staff assessment withholdings ($614,374).

In June 2003, the thirteenth Meeting of States Parties decided that the Tribunal should surrender the amount in the staff assessment fund as of 31 December 2002 ($2,356,865) and deduct this amount from the contributions of the States Parties for 2004 pro rata to their contributions thereto for each financial year concerned (SPLOS/98). The obligation from this decision has been disclosed in the reporting line "Surrender of withholdings from staff assessment" in the statement 2 (exhibit II). The Tribunal shall also surrender the savings amounting to $833,269 from the 2001 budget to the States Parties in 2004.

The amount of staff assessment accumulated from the gross remuneration of staff in accordance with applicable scale of the United Nations in the financial year 2003 ($614,374) shall be used to reimburse officials and members of the Tribunal in 2003 and 2004 and therefore is reported in the assessment special account.

In accordance with the decision of the Meeting of States Parties at its twelfth meeting (SPLOS/87), savings from the budgets of the Tribunal for 1998, 1999 and

2000 ($2,633,220) have been surrendered to the States Parties in 2003 by deducting the savings from the assessed contributions for 2003 (see note 4).

Working Capital Fund

The Working Capital Fund has been built up to the level envisaged in the decision of the eleventh Meeting of States Parties (SPLOS/70, para. 3) and as a consequence of the approved transfer of savings and appropriations in previous years currently stands at $1,150,000.

Note 3. Contingent liability

The net contingent liability for staff benefits at 31 December 2003 established at $345,075 consists of the following (in thousands of United States dollars):

Accumulated annual leave	170 826
Compensatory time liability	4 723
Entitlements due to repatriation	169 526
	345 075

In accordance with the Financial Regulations and Rules of the United Nations, there is no provision in the accounts for contingent liability. The expenditures will be charged against the budget appropriations of the periods when actual payments are made. In accordance with the Staff Regulations and Rules of the Tribunal the contingent liability reflected above is based on net remuneration.

Note 4. Income

The Tribunal's income in the financial period 2003 totalled $7,857,202. Income resulted from contributions of 145 States Parties (including the European Community) totalling $7,798,300. This included an amount of $2,633,220 from savings in the 1998, 1999 and 2000 budgets of the Tribunal. In accordance with the decision of the twelfth Meeting of States Parties, this amount was surrendered to the States Parties in 2003 by deducting the savings from the assessed contributions of States Parties for 2003.

Income included savings due to the cancellation of prior period obligations in the amount of $40,720, net interest income of $16,341 and German social security payments recovered from staff in the amount of $35,543, which were netted with miscellaneous expenses of $45,946. Results from fluctuations in exchange rates amounted to a net gain of $12,244.

Of the total income for 2003 from contributions of the States Parties, an amount of $557,109 was outstanding at the end of that financial period. With regard to the previous budgets of the Tribunal, amounts of $66,077 for 1996/97, $39,124 for 1998, $147,590 for 1999, $98,785 for 2000, $297,281 for 2001 and $502,125 for 2002 were still outstanding. The balance of unpaid contributions with respect to the overall budgets of the Tribunal (1996/97 to 2003) therefore amounts to $1,708,091. No allowances for doubtful accounts receivable for the overdue balances have yet been considered in the statement of assets, liabilities and working capital at 31 December 2003, as the risks associated with these overdue balances are partly

offset by the Tribunal's liability for the surrender of savings and withholdings to the States Parties and further efforts undertaken by the Tribunal to collect the outstanding receivables from the States Parties.

Note 5. Expenditures

The budget for 2003 was approved by the Meeting of States Parties in April 2002 (SPLOS/90). Budget estimates were based on the United States dollar/euro exchange rate of 1.158 in March 2002. By the end of the financial year, the exchange rate between the United States dollar and the euro had changed to 0.842. This presents a decrease of some 30 per cent in the value of the United States dollar against the euro. As such a sharp decline of the United States dollar could not be anticipated by the Tribunal when preparing the budget estimates for 2003, the weakening of the United States dollar led to unforeseeable overexpenditures in certain budget lines.

The Tribunal's expenditures for the financial period 2003 totalled $7,715,426. There was an overexpenditure in the amount of $647,359 in the budget section "staff costs". This was primarily due to: exchange rate fluctuations between the United States dollar and the euro; increase in the standard costs for staff and common staff costs applied within the United Nations common system; and increases in the daily subsistence allowance rate for Hamburg as determined by the International Civil Service Commission. The "operating expenditures", where expenses are mostly incurred in euros, was also overspent by $33,835 due to the weakening of the United States dollar vis-à-vis the euro.

In respect of the overexpenditure, the thirteenth Meeting of States Parties decided that, in the event that the Tribunal was unable to meet approved expenditures for 2003 from appropriations made with respect to the budget lines "Established posts" and "Common staff costs", the Meeting of States Parties authorized the Registrar to incur expenditures to the extent that the shortfall in appropriations results from unforeseeable increases in daily subsistence allowance (DSA), salary costs and common costs as applied within the United Nations common system. The States Parties also decided that, in the event the Tribunal is unable to meet approved expenditures for 2003 from appropriations made in the budget line "Maintenance of premises", the Meeting of States Parties authorized the Registrar to incur expenditures to the extent that the shortfall in appropriations results from exchange rate fluctuations (SPLOS/99).

The Meeting of States Parties further authorized the Tribunal to finance the overexpenditures referred to above by transfers between appropriation sections. In accordance with that decision the overexpenditures have been financed by transfers from savings in the sections "Remuneration of Judges" ($184,261) and the "Contingency funds" (judges and staff costs) ($541,996).

Note 6. Assets

Contributions receivable from States Parties as at 31 December 2003 amount to a total of $1,708,091, of which $1,150,982 were overdue by more than one year (see note 4).

As at 31 December 2003, cash totalled $5,082,954. Included in this amount is a special account for staff assessments of $2,971,239. Staff assessment is a form of

internal taxation on the salaries of officials employed by the organizations of the United Nations system. It is used to reimburse staff members whose salaries are subject to national income tax. These amounts included in the total cash balance are not expendable resources of the Tribunal. The thirteenth Meeting of States Parties decided that the Tribunal should deduct from the contributions of States Parties for 2004 the amount in the staff assessment fund as of 31 December 2002 ($2,356,865) pro rata to their contributions to the budgets of the Tribunal for each financial year concerned (SPLOS/98).

According to the same decision, the amount of staff assessment additionally accumulated in 2003 ($614,374) shall be used to reimburse officials and members of the Tribunal for national taxes levied on their income from the Tribunal in 2003 and 2004. Thereafter the amount remaining in the staff assessment fund shall be deducted from the contributions of States Parties for 2005-2006.

The aggregate of accounts receivable, advances and deposits as at 31 December 2003 totalled $7,109,934.

Exhibit IV

Financial report for the financial period from 1 January to 31 December 2003

Introduction

1. The Registrar of the Tribunal for the Law of the Sea submits herewith the financial report for the financial period from 1 January to 31 December 2003. This is the seventh financial period and the seventh financial report of the International Tribunal for the Law of the Sea (ITLOS).

2. The financial report includes the statement of income and expenditures (Statement 1), the statement of assets, Liabilities (Statement 2), the Notes to the Financial Statements, and Annex I (exhibit V). Of these, Statements 1 and 2 are presented to facilitate review by States Parties to the Convention on the Law of the Sea. They are in line with the formats agreed for the harmonization of the accounts of agencies and organizations in the United Nations common system. The Financial Report provides the financial results of ITLOS activities in 2003. Highlights are summarized in the following paragraphs:

Income

3. ITLOS income in the Financial Period 2003 totalled assessed contributions of USD 7,798,300. Income resulted from contributions of 145 States Parties (including the European Community) at the end of 2003. Of the total income from contributions for 2003 an amount of USD 557,109 was outstanding as at 31 December 2003. The balance of unpaid contributions with respect to the overall budget of the Tribunal (1996 to 2003) amounted to USD 1,708,091 on that date. In addition to the above there was other net income in the total amount of USD 58,902 from different sources like interest income, German social security payments recovered and the cancellation of prior period obligations and exchange differences.

Expenditures

4. The expenditures of the Tribunal for the Financial Period 2003 totalled USD 7,715,426. Due to the exchange rate fluctuations and increase in staff costs, there was an overexpenditure in sections "Staff costs" and "Operating expenditures". As a result of savings in "Contingency" and optimal use of resources in other budget lines, the approved budget for the period amounting to USD 7,798,300 was not overspent.

Special Accounts

5. A special account was maintained for staff assessment withholdings from 1996 to 2003. In addition, a separate special account was also maintained for savings from the budgets of the Tribunal in previous years. The staff assessment accumulated in the account as at 31 December 2002 and the savings from the 2001 budget, after the approved transfer to Working Capital Fund, will be deducted from the assessed contributions of the States Parties for 2004.

Institutional arrangements

6. The financial records of the Tribunal were maintained in the network version of the Sun computerized accounting system, which was fully implemented in 2002.

(*Signed*) **Philippe Gautier**
Registrar

Exhibit V

Expenditure report 2003

(In United States dollars)

	Objects of expenditure	Approved budget 2003	Disbursements	Balance	Total expenditure/approved budget (Percentage)
1.	**Recurrent expenditure**	**6 710 400**	**7 190 822**	**-480 422**	**107.2**
2.	**Remuneration of judges**	**1 896 000**	**1 711 739**	**184 261**	**90.3**
3.	Annual allowances	1 295 100	1 205 466	89 634	93.1
4.	Special allowances	310 100	334 415	-24 315	107.8
5.	Travel of judges to meetings	125 000	105 335	19 665	84.3
6.	Judges' pension scheme	165 800	66 523	99 277	40.1
7.	**Staff costs**	**3 301 300**	**3 948 659**	**-647 359**	**119.6**
8.	Established posts	2 249 700	2 811 049	-561 349	125.0
9.	Common staff costs	771 600	895 209	-123 609	116.0
10.	Overtime	35 000	43 459	-8 459	124.2
11.	Temporary assistance for meetings	100 000	97 315	2 685	97.3
12.	General temporary assistance	110 000	72 246	37 754	65.7
13.	Training	35 000	29 381	5 619	83.9
14.	**Representation allowance**	**7 600**	**7 600**	**0**	**100.0**
15.	**Official travel**	**90 700**	**88 159**	**2 541**	**97.2**
16.	**Hospitality**	**7 100**	**4 070**	**3 030**	**57.3**
17.	**Operating expenditures**	**1 232 700**	**1 266 535**	**-33 835**	**102.7**
18.	Maintenance of premises (including facility management and contractual services)	815 000	933 062	-118 062	114.5
19.	Rental and maintenance of equipment	200 000	182 116	17 884	91.1
20.	Communications	115 000	69 649	45 351	60.6
21.	Miscellaneous services and charges (including bank charges)	20 000	23 353	-3 353	116.8
22.	Supplies and materials	65 000	44 855	20 145	69.0
23.	Special services (external audit)	17 700	13 500	4 200	76.3
24.	**Library and related costs**	**175 000**	**164 060**	**10 940**	**93.7**
25.	Library procurement of books and publications	120 000	113 398	6 602	94.5
26.	External printing and binding	55 000	50 662	4 338	92.1
27.	**Non-recurring expenditure**	**100 000**	**78 126**	**21 874**	**78.1**
28.	**Furniture and equipment**	**100 000**	**78 126**	**21 874**	**78.1**
29.	Purchase of equipment	100 000	78 126	21 874	78.1
30.	**Contingency fund**	**987 900**	**445 904**	**541 996**	**45.1**
31.	**Judges**	**808 600**	**325 228**	**483 372**	**40.2**
32.	Special allowances	633 300	280 052	353 248	44.2
33.	Compensation to judges ad hoc	40 300	34 350	5 950	85.2
34.	Travel of judges to meetings	135 000	10 826	124 174	8.0
35.	**Staff costs**	**179 300**	**120 676**	**58 624**	**67.3**
36.	Temporary assistance for meetings	179 300	120 676	58 624	67.3
37.	**Miscellaneous**	**0**	**574**	**-574**	
38.	**Total**	**7 798 300**	**7 715 426**	**82 874**	**98.9**

Exhibit VI

Audit procedures and results of the additional audit scope

As directed by the President of the Tribunal and set out in his letter dated 8 April 2004, we have audited the following aspects of operational procedures in addition to our audit of the financial statements as of 31 December 2003:

1. Whether expenditures incurred have been appropriately authorized by the party designated for that purpose in the Rules of the Tribunal and the Financial Regulations of the United Nations;

2. Whether staff and persons being paid by the Tribunal have been recruited or engaged in the manner provided in the Rules of the Tribunal or the Financial Regulations of the United Nations;

3. Whether goods and services have been procured in accordance with the procedures provided for in the Financial Regulations of the United Nations;

4. Whether goods and services which have been procured are necessary or not excessive, having regard to circumstances and the functions of the Tribunal.

As part of our audit of the financial statements the following additional procedures have been performed by us:

(a) Authorization of expenditures

As instructed, we have reviewed the procedures for the authorization of expenditures as outlined in the Financial Regulations of the United Nations and have tested on a sample basis if these procedures have been strictly followed by the Tribunal in all material respects.

As a result of the work done, no significant matter came to our attention. In our opinion the procedures for the authorization of expenditures were carried out in accordance with the Financial Regulations of the United Nations.

(b) Procedures for recruiting/engaging staff

We have reviewed the procedures for recruiting/engaging staff are in line with the Staff Regulations of the Tribunal and United Nations staff rules and selected for testing the recruitment procedures for one out of two new employees engaged in 2002.

As a result of the work done, no breaches came to our attention. The Tribunal has carried out the procedures for recruiting staff in accordance with the Rules of the Tribunal and the Financial Regulations and staff rules of the United Nations.

(c) Procedures for procurement of goods and services

We have reviewed if the procedures followed by the Tribunal in the order process were in line with the Financial Regulations of the United Nations (i.e. include request of bids or tenders, fair analysis of tenders, written contracts etc.) and tested on a sample basis, that these procedures have been followed in all material respects by the Tribunal.

As a result of the work done, no matters came to our attention. In our opinion the procedures for procurement of goods and services were carried out in accordance with the Financial Regulations of the United Nations.

(d) Examined whether goods and services procured are necessary or not excessive, having regard to circumstances and the functions of the Tribunal

We have examined, if (1) the expenditures reported for the fiscal year have been properly included in the statement of income and expenditure and have been charged to the appropriate budget line and (2) the goods and services procured were necessary or not excessive with regard to circumstances and the functions of the Tribunal.

As a result of the above described procedures and excluding the impacts from exchange rate fluctuations in 2003, we noted minor overexpenditures within single budget lines. The overexpenditures were not excessively high, could be reasonably explained and were compensated by savings under compatible budget lines. The equipment acquired during the financial period 2003 is duly listed in the inventory and is being used as required by the circumstances and the functions of the Tribunal.

Exhibit VII

General Terms of Engagement

For Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms] as of 1 January 2002

This is an English translation of the German text which is the sole authoritative version*

1. Scope

(1) These engagement terms are applicable to contracts between Wirtschaftsprüfer [German Public Auditors] or Wirtschaftsprüfungsgesellschaften [German Public Audit Firms] (hereinafter collectively referred to as the "Wirtschaftsprüfer") and their clients for audits, consulting and other engagements to the extent that something else has not been expressly agreed to in writing or is not compulsory due to legal requirements.

(2) If, in an individual case, as an exception contractual relations have also been established between the Wirtschaftsprüfer and persons other than the client, the provisions of No. 9 below also apply to such third parties.

2. Scope and performance of the engagement

(1) Subject of the Wirtschaftsprüfer's engagement is the performance of agreed services – not a particular economic result. The engagement is performed in accordance with the Grundsätze ordnungsmäßiger Berufsausübung [Standards of Proper Professional Conduct]. The Wirtschaftsprüfer is entitled to use qualified persons to conduct the engagement.

(2) The application of foreign law requires – except for financial attestation engagements – an express written agreement.

(3) The engagement does not extend – to the extent it is not directed thereto – to an examination of the issue of whether the requirements of tax law or special regulations, such as, for example, laws on price controls, laws limiting competition and Bewirtschaftungsrecht [laws controlling certain aspects of specific business operations] were observed; the same applies to the determination as to whether subsidies, allowances or other benefits may be claimed. The performance of an engagement encompasses auditing procedures aimed at the detection of the defalcation of books and records and other irregularities only if during the conduct of audits grounds therefor arise or if this has been expressly agreed to in writing.

(4) If the legal position changes subsequent to the issuance of the final professional statement, the Wirtschaftsprüfer is not obliged to inform the client of changes or any consequences resulting therefrom.

3. The client's duty to inform

(1) The client must ensure that the Wirtschaftsprüfer – even without his special request – is provided, on a timely basis, with all supporting documents and records required for and is informed of all events and circumstances which may be significant to the performance of the engagement. This also applies to those supporting documents and records, events and circumstances which first become known during the Wirtschaftsprüfer's work.

(2) Upon the Wirtschaftsprüfer's request, the client must confirm in a written statement drafted by the Wirtschaftsprüfer that the supporting documents and records and the information and explanations provided are complete.

4. Ensuring independence

The client guarantees to refrain from everything which may endanger the independence of the Wirtschaftsprüfer's staff. This particularly applies to offers of employment and offers to undertake engagements on one's own account.

5. Reporting and verbal information

If the Wirtschaftsprüfer is required to present the results of his work in writing, only that written presentation is authoritative. For audit engagements the long-form report should be submitted in writing to the extent that nothing else has been agreed to. Verbal statements and information provided by the Wirtschaftsprüfer's staff beyond the engagement agreed to are never binding.

6. Protection of the Wirtschaftsprüfer's intellectual property

The client guarantees that expert opinions, organizational charts, drafts, sketches, schedules and calculations – especially quantity and cost computations – prepared by the Wirtschaftsprüfer within the scope of the engagement will be used only for his own purposes.

7. Transmission of the Wirtschaftsprüfer's professional statement

(1) The transmission of a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) to a third party requires the Wirtschaftsprüfer's written consent to the extent that the permission to transmit to a certain third party does not result from the engagement terms.

The Wirtschaftsprüfer is liable (within the limits of No. 9) towards third parties only if the prerequisites of the first sentence are given.

(2) The use of the Wirtschaftsprüfer's professional statements for promotional purposes is not permitted; an infringement entitles the Wirtschaftsprüfer to immediately cancel all engagements not yet conducted for the client.

8. Correction of deficiencies

(1) Where there are deficiencies, the client is entitled to subsequent fulfillment [of the contract]. The client may demand a reduction in fees or the cancellation of the contract only for the failure to subsequently fulfill [the contract]; if the engagement was awarded by a person carrying on a commercial business as part of that commercial business, a government-owned legal person under public law or a special government-owned fund under public law, the client may demand the cancellation of the contract only if the services rendered are of no interest to him due to the failure to subsequently fulfill [the contract]. No. 9 applies to the extent that claims for damages exist beyond this.

(2) The client must assert his claim for the correction of deficiencies in writing without delay. Claims pursuant to the first paragraph not arising from an intentional tort cease to be enforceable one year after the commencement of the statutory time limit for enforcement.

(3) Obvious deficiencies, such as typing and arithmetical errors and formelle Mängel [deficiencies associated with technicalities] contained in a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) may be corrected – and also be applicable versus third parties – by the Wirtschaftsprüfer at any time. Errors which may call into question the conclusions contained in the Wirtschaftsprüfer's professional statements entitle the Wirtschaftsprüfer to withdraw – also versus third parties – such statements. In the cases noted the Wirtschaftsprüfer should first hear the client, if possible.

9. Liability

(1) The liability limitation of § ["Article"] 323 (2)["paragraph 2"] HGB ["Handelsgesetzbuch": German Commercial Code] applies to statutory audits required by law.

(2) Liability for negligence. An individual case of damages

If neither No. 1 is applicable nor a regulation exists in an individual case, pursuant to § 54a (1) no. 2 WPO ["Wirtschaftsprüferordnung": Law regulating the Profession of Wirtschaftsprüfer] the liability of the Wirtschaftsprüfer for claims of compensatory damages of any kind – except for damages resulting from injury to life, body or health – for an individual case of damages resulting from negligence is limited to € 4 million; this also applies if liability to a person other than the client should be established. An individual case of damages also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty without taking into account whether the damages occurred in one year or in a number of successive years. In this case multiple acts or omissions of acts based on a similar source of error or on a source of error of an equivalent nature are deemed to be a uniform breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the Wirtschaftsprüfer is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(3) Preclusive deadlines

A compensatory damages claim may only be lodged within a preclusive deadline of one year of the rightful claimant having become aware of the damage and of the event giving rise to the claim – at the very latest, however, within 5 years subsequent to the event giving rise to the claim. The claim expires if legal action is not taken within a six month deadline subsequent to the written refusal of acceptance of the indemnity and the client was informed of this consequence. The right to assert the bar of the preclusive deadline remains unaffected. Sentences 1 to 3 also apply to legally required audits with statutory liability limits.

* Translator's notes are in square brackets.

10. Supplementary provisions for audit engagements

(1) A subsequent amendment or abridgement of the financial statements or management report audited by a Wirtschaftsprüfer and accompanied by an auditor's report requires the written consent of the Wirtschaftsprüfer even if these documents are not published. If the Wirtschaftsprüfer has not issued an auditor's report, a reference to the audit conducted by the Wirtschaftsprüfer in the management report or elsewhere specified for the general public is permitted only with the Wirtschaftsprüfer's written consent and using the wording authorized by him.

(2) If the Wirtschaftsprüfer revokes the auditor's report, it may no longer be used. If the client has already made use of the auditor's report, he must announce its revocation upon the Wirtschaftsprüfer's request.

(3) The client has a right to 5 copies of the long-form report. Additional copies will be charged for separately.

11. Supplementary provisions for assistance with tax matters

(1) When advising on an individual tax issue as well as when furnishing continuous tax advice, the Wirtschaftsprüfer is entitled to assume that the facts provided by the client - especially numerical disclosures - are correct and complete; this also applies to bookkeeping engagements. Nevertheless, he is obliged to inform the client of any errors he has discovered.

(2) The tax consulting engagement does not encompass procedures required to meet deadlines, unless the Wirtschaftsprüfer has explicitly accepted the engagement for this. In this event the client must provide the Wirtschaftsprüfer, on a timely basis, all supporting documents and records - especially tax assessments - material to meeting the deadlines, so that the Wirtschaftsprüfer has an appropriate time period available to work therewith.

(3) In the absence of other written agreements, continuous tax advice encompasses the following work during the contract period:

a) preparation of annual tax returns for income tax, corporation tax and business tax, as well as net worth tax returns on the basis of the annual financial statements and other schedules and evidence required for tax purposes to be submitted by the client,

b) examination of tax assessments in relation to the taxes mentioned in (a),

c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b),

d) participation in tax audits and evaluation of the results of tax audits with respect to the taxes mentioned in (a),

e) participation in Einspruchs- und Beschwerdeverfahren [appeals and complaint procedures] with respect to the taxes mentioned in (a).

In the afore-mentioned work the Wirtschaftsprüfer takes material published legal decisions and administrative interpretations into account.

(4) If the Wirtschaftsprüfer receives a fixed fee for continuous tax advice, in the absence of other written agreements the work mentioned under paragraph 3 (d) and (e) will be charged separately.

(5) Services with respect to special individual issues for income tax, corporate tax, business tax, valuation procedures for property and net worth taxation, and net worth tax as well as all issues in relation to sales tax, wages tax, other taxes and dues require a special engagement. This also applies to:

a) the treatment of nonrecurring tax matters, e. g. in the field of estate tax, capital transactions tax, real estate acquisition tax,

b) participation and representation in proceedings before tax and administrative courts and in criminal proceedings with respect to taxes, and

c) the granting of advice and work with respect to expert opinions in connection with conversions of legal form, mergers, capital increases and reductions, financial reorganizations, admission and retirement of partners or shareholders, sale of a business, liquidations and the like.

(6) To the extent that the annual sales tax return is accepted as additional work, this does not include the review of any special accounting prerequisites nor of the issue as to whether all potential legal sales tax reductions have been claimed. No guarantee is assumed for the completeness of the supporting documents and records to validate the deduction of the input tax credit.

12. Confidentiality towards third parties and data security

(1) Pursuant to the law the Wirtschaftsprüfer is obliged to treat all facts that he comes to know in connection with his work as confidential, irrespective of whether these concern the client himself or his business associations, unless the client releases him from this obligation.

(2) The Wirtschaftsprüfer may only release long-form reports, expert opinions and other written statements on the results of his work to third parties with the consent of his client.

(3) The Wirtschaftsprüfer is entitled - within the purposes stipulated by the client - to process personal data entrusted to him or allow them to be processed by third parties.

13. Default of acceptance and lack of cooperation on the part of the client

If the client defaults in accepting the services offered by the Wirtschaftsprüfer or if the client does not provide the assistance incumbent on him pursuant to No. 3 or otherwise, the Wirtschaftsprüfer is entitled to cancel the contract immediately. The Wirtschaftsprüfer's right to compensation for additional expenses as well as for damages caused by the default or the lack of assistance is not affected, even if the Wirtschaftsprüfer does not exercise his right to cancel.

14. Remuneration

(1) In addition to his claims for fees or remuneration, the Wirtschaftsprüfer is entitled to reimbursement of his outlays; sales tax will be billed separately. He may claim appropriate advances for remuneration and reimbursement of outlays and make the rendering of his services dependent upon the complete satisfaction of his claims. Multiple clients awarding engagements are jointly and severally liable.

(2) Any set off against the Wirtschaftsprüfer's claims for remuneration and reimbursement of outlays is permitted only for undisputed claims or claims determined to be legally valid.

15. Retention and return of supporting documentation and records

(1) The Wirtschaftsprüfer retains, for seven years, the supporting documents and records in connection with the completion of the engagement - that had been provided to him and that he has prepared himself - as well as the correspondence with respect to the engagement.

(2) After the settlement of his claims arising from the engagement, the Wirtschaftsprüfer, upon the request of the client, must return all supporting documents and records obtained from him or for him by reason of his work on the engagement. This does not, however, apply to correspondence exchanged between the Wirtschaftsprüfer and his client and to any documents of which the client already has the original or a copy. The Wirtschaftsprüfer may prepare and retain copies or photocopies of supporting documents and records which he returns to the client.

16. Applicable law

Only German law applies to the engagement, its conduct and any claims arising therefrom.

Special conditions

Governing the raising of the limit of liability defined in the General Terms of Engagement for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften, as amended 1 January 2001

Instead of the lower liability limit for single cases defined in section 9 (2) of the enclosed General Terms of Engagement, a uniform limit of €10 million euros shall apply.

Where the client is of the opinion that the engagement involves a risk significantly in excess of €10 million, we are prepared to raise the limit on our liability to a reasonable amount in exchange for an adequate increase in our fees, provided that insurance cover can be obtained.

The above shall not apply where a higher or lower limit on liability for professional services is prescribed by law, e.g. for a statutory audit.

Where a loss is due to several causes, we shall be liable only if our negligence or the negligence of our staff has contributed to the loss, and only for the proportion of the loss corresponding to the extent of such contribution, subject to the agreed limit on our liability; this provision shall apply in particular to all engagements to be performed jointly with other members of the profession.

In addition to section 7 (1) of the General Terms of Engagement, we point out that a limitation of our liability agreed with our client will also apply to any third party who is affected by the engagement.

Exclusive place of jurisdiction for any action or other legal proceedings arising out of or in connection with this engagement shall be the court competent for the office in charge for this engagement.